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S E C R E T SECTION 01 OF 02 BAGHDAD 000106

SIPDIS

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TAGS: [ECON](#) [ENRG](#) [EPET](#) [EFIN](#) [MOPS](#) [MARR](#) [PGOV](#) [PREL](#) [TU](#) [IZ](#)

SUBJECT: IRAQ'S ENERGY TIGHTROPE: ANOTHER PERFECT STORM AT HAND

REF: A. BAGHDAD 0048

[B](#). BAGHDAD 0013

[C](#). 2005 BAGHDAD 5153

[D](#). 2005 BAGHDAD 5132

Classified By: Charge D'Affaires David Satterfield for reasons 1.4 (b) and (d).

[1](#). (C) SUMMARY: Electricity has been in chronically short supply for months, and developments of recent weeks have exacerbated even the normally tight situation. Interdictions, low efficiencies caused by unscheduled maintenance, and use of inappropriate fuels have been the usual culprits behind Iraq's electrical shortfalls. Low reservoir levels in the north, which led to hydro generation shutdowns, have worsened the situation. Paradoxically, heavy rains elsewhere, notably in Baghdad, disrupted coping mechanisms as local generating capacity and jury-rigged wiring shorted out. Meanwhile, refined petroleum products continue to be in short supply, and observers of the political scene and economic analysts wonder if the return of Oil Minister Bar al-Ulum to his recently vacated office will help or hinder efforts to cope with the energy crisis. Al-Ulum's opposition to IMF-mandated fuel price hikes and his inability to crack down on organized resistance to them were not promising signals. END SUMMARY.

Weak Generation Capacity

[2](#). (C) Drought conditions in northern Iraq have lowered the country's hydroelectric power generation. Stations at Haditha Dam and Mosul are operating at 20 percent of capacity, while at least two smaller stations are off-line altogether for lack of sufficient water supplies. Interruptions in crude oil exports in the south (due to inclement weather, a shortage of tugboats, and limited storage capacity) led to a crude oil production stoppage. A corresponding interruption in supply of co-generated natural gas led to the gas-powered plants in Hillah, Najaf, and the Khor al-Zubayr (KAZ) power stations to go off-line for three days. Although gas transmission has resumed with the advent of better weather, the pressure in the line remains low. Finally, shutdowns for fall maintenance started late at a number of power plants around Iraq, leading to a lack of readiness for peak winter electrical demand (traditionally higher than summer, but of shorter duration). Underlying these specific issues is the continued use - by necessity - of inappropriate fuel such as heavy fuel oil (HFO) in many power plants, leading to a more frequent need for expensive (and hence often postponed) essential maintenance. (COMMENT: Maintenance delayed is not maintenance avoided, however; it simply becomes unscheduled maintenance, when systems go off-line. END COMMENT.)

Transmission Tipped Over the Razor's Edge

[3](#). (SBU) Bayji-Baghdad West #2 400kV line remains inoperative due to a series of interdictions dating from November. Of the initial 56 downed towers, 14 still await repair. The delay on this last tranche stems from intimidation of the Ministry of Electricity's transmission repair crews. The Ministry is using contractors for repair and is offering substantial hazardous duty bonuses. It also has arranged protection for the line via local tribes, coordinated with the area Provincial Joint Communication Centers (PJCCs). The estimated completion date for repairs to the remaining 14 towers on Bayji-Baghdad West #2 is January 25 -- provided no further towers have been brought down or looted during the lengthy wait for repair. The Bajji-Kirkuk 400kV line, which supplies up to 400 MW (four hours of power) to the Baghdad loop, is also down; repairs are expected no sooner than January 20. Bayji-Baghdad West #1, as the sole line in operation from the north, is limited to the transfer of some 200MW (the equivalent of 2 hours of power) to decrease blackout potential on the grid. Late in the evening January 10, a tower on the Bayji-Baghdad West #1 line was brought down by explosives, interrupting power to Baghdad that again dropped to an average of 2 hours of power for the day. Ministry of Energy (MoE) teams have a temporary tower ready to move to the scene and are coordinating their movement with MNF-I as of this writing January 11. Finally,

unscheduled maintenance at Mussayib and on the Baghdad loop has been higher than usual, further limiting hours of power.

Normal Coping Mechanisms Also Challenged

14. (SBU) Average Iraqis, widely acknowledged as able to cope with the country's ongoing electrical challenges, are being further stretched by wet weather. Home generators are common (more than a million exist in Baghdad alone), as well as a propensity to pay cash - at market rates - for the privilege of connecting to larger diesel-powered neighborhood generators to supplement sporadic, state-provided power. However, rainy weather that caused minor flooding in many parts of the city is causing many generators to short out -- even when fuel is available. There is a weather-related positive note -- higher than average temperatures have held off the worst of the winter demand, at least for the moment.

Fuel Situation Precarious But Improving Slightly

15. (C) Reftels catalogued the serious fuel situation facing Iraq in the past month. IMF-mandated fuel price hikes that went into effect December 18, 2005, significantly altered the economics of oil smuggling. This welcome development (from the government's perspective) has led to a concerted, organized effort by criminal elements to push back by exacerbating the country's fuel shortage. The critical state of Iraq's fuel supply (two days of gasoline supply or less on hand in most parts of the country) provided an opportunity to pressure the government by interrupting operations at Bayji refinery, where fuel truck convoys operating in lieu of interdicted pipelines were attacked in recent weeks.

16. (S/REL MNF-I) Under Deputy Prime Minister Chalabi's leadership as acting Minister of Oil and with assistance from Coalition Forces, this attempt to starve the capital of fuel has been counteracted. A smaller 8" pipeline has been put into service shipping product from Bayji to Kirkuk for more secure onward transport to Baghdad by truck. And a second 12" pipeline is being completed. The Director-General of the Iraqi Oil Pipeline company, Raad Rafeq Yassen, reported January 10 that the 26" crude oil pipeline had been repaired since January 6. (NOTE: Raad admitted he had declined to report the repairs in the hope that keeping the guards at the local checkpoint ignorant would protect pipeline from attack that much longer. END NOTE.) Repairs to the 40" Kirkuk-Bayji crude line are expected January 12, allowing a resumption of exports to Turkey from Iraq's northern fields for the first time in almost six months. The 30/32" crude line, whose repair has been contingent upon repair of the 40" line, could thus be back in service o/a January 20. Refining at Daura is returning to normal, with crude oil arriving via the recently-repaired 18" pipeline from Basrah. Bayji is also ramping up production now that product is again moving out from the refinery. The 22" product Bayji-Baghdad pipeline remains down after a repair effort undertaken without security protection left several Iraqis injured when the repair crew came under attack. Work is expected to begin again soon, once the repair crew is reassured that security has been coordinated.

No Respite Seen in the Short-term

17. (C) COMMENT: This precarious state of affairs shows no sign of abating anytime soon. Price increases may have dampened consumption, but the fact that Iraq cannot meet even lower consumption needs internally means that imports will still be essential. Deputy Prime Minister Chalabi acknowledged a current debt to Turkey for fuel of approximately \$800 million in a meeting with Charge January 8 (septel); the average of some 600 fuel trucks that cross into Iraq from Turkey per day has dropped in recent days to 300. The return of Ibrahim Bahr al-Ulum to office January 10, may only further complicate, rather than remedy matters. It is unclear whether al-Ulum, an outspoken critic of the fuel price increases who was lax in cracking down on corruption and criminal activity, will be willing or able to maintain the positive momentum injected into the oil sector during DPM Chalabi's brief tenure as acting Minister of Oil during the past month. Post will engage al-Ulum January 12 to press for action on key issues, and will meet with DPM Chalabi to reinforce the need for his continuing direct oversight of the Ministry of Oil. END COMMENT.
SATTERFIELD